ARGENTINE JOURNAL OF INTERNATIONAL ECONOMICS (RAEI)

December 2013 – Number 2

CONTENTS

CEI Centre for International Economy

Ministry of Foreign Affairs and Worship
Argentine Republic

EDITORIAL

Far from coming to an end, the global crisis is deepening the dilemmas in the aftermath of the storm. Since its outbreak between 2007 and 2008 until today, the supporters of austerity at global level are winning the dispute with arguments that show –once again– their ineffectiveness. The irony is that when there is a need for greater demand, countries are less willing to walk along that path.

Developed countries seem to show intermittent signs of recovery, whereas developing countries are showing a reduction in their growth rates and are facing new and increasingly complex obstacles. Among these obstacles, it is worth highlighting the challenge of constituting solid domestic markets which can enhance their own demands, thus diverting attention from the export alternative which has been presenting serious limitations since the outbreak of the crisis.

In this context, concepts are crucial when it comes to understanding and reflecting upon the challenges that we are faced with. And they are even more crucial when development (or rather growth) strategies which are completely anachronistic to this new reality acquire greater importance and have adverse results, whose effects have been visible in most developing countries over the last decades.

In the debate about development, a concept that is simultaneously new and old has become popular: Global Value Chains (GVCs). It is a new concept, since, for the first time in human history, in 2009 world trade in intermediate goods surpassed that of finished products. But it is an old concept too in the sense that this phenomenon reflects a way of organizing production (where the final product contains parts and pieces that are manufactured in different countries related to each other) which is far from being a novelty: the globalization of production is a historical process inherent to capitalism.

Thus, GVCs are playing a central role in the most important fora in the international economic arena (World Trade Organization, G-20 and United Nations Conference on Trade and Development, among others). In those fora, developed countries have claimed that every country –and, in particular, developing countries– should integrate into global value chains so as to modify their status of being non-developed countries. Once they are integrated, the upgrading process and the spill-overs in the rest of the economy of the benefits of integrating into GVCs would become essential to reach the primary goal: development.

The advocates of this new liberalizing trend believe that foreign trade management is an out-of-date policy, because, in their view, the struggle for multinational investments will take place between those countries that guarantee the new rules of the game they are fostering. Though there is nothing new about these rules.

In terms of discourse, what is new is the idea that a country can be part of the “Made in the World” production. The new/old ideas would only lead to a more marked international division of labour, which has lately been revived with the establishment of the least valued and dynamic links of global value chains in peripheral countries.

In a nutshell, there is nothing new in the ideological field. Public policy recommendations –despite some new nuances– continue to be the same. Developing countries should guarantee the free movement of goods, services and information, as well as the protection of intellectual property rights. However, it is worth noting that providing such guarantees entails a worsening in their structural unemployment.

Thus, the old export-led growth models seem to come up once again behind these arguments, offering as example the paradigmatic case of the "Asian Tigers". However, in some of these countries most workers have low salaries (which would be incompatible with development) and, when they are offered as example, what is not mentioned is the weight the government's decision had to drive the development process forward.

The first article of this second issue of the Argentine Journal of International Economics (RAEI) delves into this challenging argument from a different perspective. Partly because it directly concerns our country, which over the last years has stood aloof from the suggestions made by the international organizations when it adopted – just to mention one among many issues– a foreign economic policy aimed at defending domestic value-added.

But also because this article reflects the ever-present gap between discourse and reality. It would seem that developed countries do not hesitate at all when they have to use any economic policy instrument (being it a foreign trade policy or not) in order to keep both their employment levels and their companies. This phenomenon is known as "double standard".

Since the outbreak of the crisis, G-20 countries have agreed to undertake a commitment "not to innovate", which implies that countries should not implement new "protectionist" policies. However, the agreement does not include the already existing measures in each of the countries.

Yet, reality tells us a different story. EU subsidies for wine production and the sanitary barriers that affect the Argentine exports of pears and apples are only two examples of this "double standard". The significant role that payments for environmental services are playing in the EU domestic support to agricultural producers constitutes another example of the legal engineering in the service of the "legal" protection.

Another of the articles included in this issue of the RAEI refers to how important Argentina is for the regional market in terms of export diversification. Given the weight of industrial manufactures and the great diversity of exported products, Latin American markets play an increasingly important role in the quality of the international integration of our country. All this raises doubts about those theoretical arguments that establish free trade as the central pillar of an economic model which leads countries to a stage of growth and development that is higher than that they had before its establishment.

The specific, objective and qualified analysis of this reality raises questions concerning those theoretical generalities originating in the main international think tanks. Thus, trying a different path –an alternative one– which takes into account our national peculiarities becomes a necessary condition to contribute to the debate of ideas so as to maintain the speed of the train of economic development with social inclusion on which our country is travelling in the middle of this really difficult global context.

Please note that the RAEI is in Spanish only.